

Research and Innovation Staff Exchange (RISE) project: MedTexLink – wearable textile technologies for patient monitoring

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ABSTRACT

This aims to analyze the financial performance of the agricultural sector MSMEs Kendari City using financial ratio analysis with the profitability ratio approach. Based on the problem belongs to the typology of explanatory research. The sample of this study was 50 people from the micro, small and medium enterprises (MSMEs) of the agricultural sector with a sampling procedure based on a purposive sampling method. This research instrument adopted open and closed questionnaires as an interview guide. Research analysis tools use descriptive statistical analysis of data tabulation with the analysis of financial ratios (profitability ratios). The results of the study show that: The financial performance of the agricultural sector's MSME is almost overall good. This can be seen from the evaluation of the elements of profitability ratios, among others, gross profit margin which shows that MSMEs in the agricultural sector can get high enough profits obtained from sales, Net Profit Margin which shows that MSMEs in the agricultural sector get good results. Exceeds the cost of goods sold because the price of the product and its costs are relatively affordable, and the value of ROE which shows the ability of the agricultural sector MSMEs to return the equity of the net profit earned. But on the other hand, the performance appraisal based on ROI is a bit unfavorable this is due to low-profit margins due to low asset turnover.

Keywords: Micro, Small and Medium Enterprises (MSMEs), the Agriculture Sector, Capital Structure, Profitability Ratios, Performance.

I. INTRODUCTION

Micro, small and medium enterprises (MSMEs) have a very important role in the development and economic growth, not only in the country developing countries but also in developed countries. Including MSMEs ASEAN countries, especially in Indonesia, has become a strong pillar in national economic development. This is motivated by the large potential of MSMEs that need to be effective as a motor of Indonesia's national economy after a prolonged economic crisis (Madi, 2018). The magnitude of the role of MSMEs in the Indonesian economy, but does not always run smoothly, there are still many obstacles and constraints, both internal and external that must be faced by MSME actors. Nevertheless, these obstacles and constraints did not discourage MSMEs entrepreneurs from developing their businesses (LPPI and BI, 2015). All the successes that have been achieved by MSMEs have weaknesses that must be resolved quickly, including the lack of capital both in number and source (Suci, 2017).

MSMEs capital resources are still dominated by own capital and only a few are sourced from other parties including banks. This phenomenon explains that MSMEs are productive endeavors to be developed to support macro and microeconomic development and influence other sectors that can develop in Indonesia. This is an opportunity for microfinance institutions, both banks, and non-banks, to continue working on micro and small businesses, especially those that are not bankable (Nuswantara, 2012). For small and medium-sized businesses, credit is considered important enough to increase the need for working capital financing needed to run a business and increase their capital accumulation (Putra and Saskara, 2013). This shows the strategic role of MSMEs, especially in the agricultural sector, because the processing of agricultural products will have an impact on improving the welfare of the community through the addition of the value of agricultural products amidst the instability of agricultural commodity prices. The existence of small community gaps can also be addressed because the existence of MSMEs can provide broad employment opportunities (Rakha, 2017). One of the development sectors of MSMEs that are by Indonesia's agricultural conditions is through the development of MSMEs in agriculture.

Southeast Sulawesi Province is an agrarian area where most people's lives depend on the agricultural sector (Simreg Bappenas, 2015). According to Haruddin and Rezki (2017), Southeast Sulawesi Province has the opportunity for the growth and development of business actors, especially MSMEs. The company is currently required to improve its performance to be able to produce quality products that can compete with other products (Lutfiana, et. al., 2013).

Including an MSME is considered "quality" if it produces good business performance or profits business that is not only high or increases every year, but also contribute or have a positive impact on their activities on the surrounding social/community. Performance analysis presented by Armstrong and Taylor (2014) is needed to provide feedback in improving the role and position of a company to create a situation where a sustainable increase in results will be guaranteed (Santoso, et. al., 2015). Of course, the next result is expected to be one of the information considerations for the policy aspects of financing in the development of the MSMEs agricultural sector in Southeast Sulawesi Province.

Is a productive business unit that stands alone, which is carried out by individuals or business entities in all economic sectors. In principle, the difference between Micro Business (UMI), Small Business (UK), Medium Business (UM) and Big Business (UB) is generally based on the initial asset value (excluding land and buildings), average turnover per year, or several permanent workers.

Table 1. Criteria for MSMEs and Large Enterprises Based Assets and Turnover

Size Enterprises	Criteria	
	Asset (IDR)	Turnover (IDR)
Micro	Maximum 50 million	Maximum 300 million
Small	Business > 50 million – 500 million	Million > 300 million - 2.5 billion
Medium	Business > 500 million - 10 billion	> 2.5 billion - 50 billion
Big Enterprises	> 10 billion	> 50 billion

Source: LPPI and BI (2015).

Agro-industry as one of the important subsystems in agribusiness has the potential to encourage high growth because of added value that can accelerate the transformation of economic structures from agriculture to industry. According to FAO (Hicks, 1996), an industry that uses raw materials from agriculture with a minimum amount of 20% of the total raw material used is called "agro-industry". The Meaning second is that agro-industry is defined as a stage of agricultural development, but before the development stage reaches the industrial stage (Soekartawi, 1995). Agro-industry is known as an industrial activity that processes agricultural products as raw materials into final products or semi-finished goods and provides equipment and services to support these activities. However, agro-industry is better known as a downstream industry that processes and produces goods ready for consumption (Gultom and Sulistyowati, 2018).

Good, maximum and optimal performance is the goal of all MSMEs. Good performance in all sectors of finance, production, distribution, and marketing is an absolute requirement for MSMEs to be able to continue to live. With good performance, an MSMEs is also expected to become stronger as the backbone of the economy and will increasingly play an important role in the national economy (Rapih, et al., 2015).

The word performance in the context of the task, together with the results of the work done by the employee and the organization (Wibowo, 2017). The concept of performance is an abbreviation of work energy kinetics whose equivalent in English is performance. Performance can be interpreted as the output generated by the function or indicator of a job at a certain time (Nuswantara, 2012). According to Hadiyati (2006), that performance is the result obtained by an organizational unit within a certain time that can be accounted for and is a measure of the success or success of the company. Success is determined by two factors, internal factors that exist within the company itself and external factors that exist outside the company.

Types of financial performance measurement tools "Measuring tools for corporate financial performance are used by management as a reference for making decisions and evaluating the performance of management and related units within the company's organizational environment" (Husnan and Pudjiastuti, 2004). According to Kasmir (2008), profitability ratio is one type of financial performance measurement tools, this ratio is to assess the company's ability to seek profits. This ratio also provides a measure of the effectiveness of a company's management. The use of profitability ratios can be done by using comparisons between various components in the financial statements, especially the income statement and balance sheet.

II. METHODS AND MATERIALS

Design Research

Research based on the problem, it is classified into explanatory research typology, including identification and formulation of problems, the study of theories or concepts related to research problems, preparation of theoretical frameworks or conceptual frameworks for the formulation of research hypotheses, and testing hypotheses that constitute validation (verification) (Solimun, 2012).

Location and Time of Research

The research location, Kendari City, was conducted purposively with spatial consideration, having the number of MSMEs based on sector business classification with the largest percentage being 14% of the total MSMEs per city in Southeast Sulawesi Province. The research was conducted in November 2019 year

Population and Sample Study

The population was all MSMEs engaged in the agricultural sector in Kendari. The population of the object of this study is the MSMEs engaged in the agricultural sector for the food and beverage processing industry (culinary) of 100 business units. The sampling method is based on deliberate (purposive sampling). From the total population members, then taken the number of research samples using the Slovin formula, as many as 50 units of MSMEs in the agricultural sector of Kendari City.

Data Analysis Method

To achieve research objectives the techniques used in this study are descriptive statistical analysis techniques for tabulating data with financial ratio analysis (profitability analysis).

III. RESULTS AND DISCUSSION

Analysis of the Financial Ratio of the MSMEs Agriculture Sector in Kendari City

The capital structure of the MSMEs agriculture sector consists of its capital and total debt.

Table 2. Capital Structure of Agricultural Sector MSMEs Kendari

Capital Resources	Total (IDR)	Average (IDR)
Shareholders' Equity	2.861.950.000,-	114.378.000,-
Total Debt	1.698.400.000,-	67.924.000,-
Total	4.560.350.000,-	182.302.000,-

Source: Primary data processed, 2020

Table 2. shows how the MSMEs of the agricultural sector use a variety of different sources of funds (shareholders' equity and debt) to fund their business capital. The amount of shareholders' equity by the MSMEs in the agricultural sector is IDR 2.861.950.000,- with an average of IDR 114.378.000,- while the total debt used by the MSMEs in the agricultural sector is IDR 1.698.400.000,- with an average of IDR 67.924.000,-. Figure 2. shows the proportion of debt and shareholders' equity of the MSMEs agriculture sector.

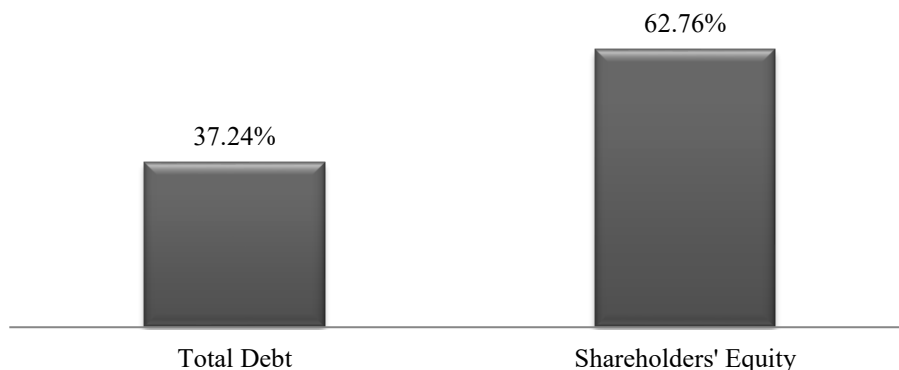


Figure 1. Proportion of MSMEs Capital Structure in the Agriculture Sector in Kendari City

Figure 1. shows that the proportion of shareholders' equity by MSMEs actors in the agricultural sector was 62.76% and total debt used was 37.24%. The results of this study indicate that the amount of debt used by MSMEs in the agricultural sector of Kendari City is in a good position because it is below the safe point. The safe point in question is the maximum debt amounting to 40% of the total value of the business assets. In terms of the concept of capital structure is emphasized that the debt is not to exceed the limits of shareholders' equity.

Ratio Profitability

Next to see an overview of the results of the analysis of profitability ratios to assess the MSMEs financial performance of the agricultural sector can be measured using 4 (four) approaches, namely:

Profit Margin on Sales

Profit margin on sales or profit margin ratio is one of the ratios used to measure the profit margin on sales. The way to measure this ratio is to compare net income after tax with net sales. This ratio is also known as the profit margin.

Gross Profit Margin

Gross profit margin is the ratio of net sales less cost of goods sold to net sales or the ratio between gross profit by net sales (Martono and Harjito, 2005).

Table 3. Gross Profit Margin MSMEs Agricultural Sector Kendari, 2019

MSMEs Agricultural Sector	Sales Turnover(IDR)	Cost of Goods Sold (IDR)	GPM	GPM (%)	Industry Standards	Criteria
Number	3251437400, -	1,501.161.000, -	0.5383	53.83%	> 30%	Good
Average	129,964,696, -	59,982,240, -				

Source: Primary data processed, 2020

Based on Table 3. it is known that the gross profit margin ratio is 53.83%. If it is reviewed that the industry average for gross profit margin is 30%, the results of the study indicate that gross profit the MSMEs margin of the agricultural sector is well above the industry average because it is considered that the MSMEs in the agricultural sector can obtain high enough profits derived from the results the sale.

Net Profit Margin

Net Profit Margin indicates the company's ability to generate profits of certain business volume levels. Net Profit Margin can be interpreted as a level of company efficiency, which is the extent to which the ability to reduce costs in the company. The higher it is. Net Profit Margin, a company is more effective in carrying out its operations.

Table 4. Net Profit Margin MSMEs Agricultural Sector Kendari, 2019

MSMEs Agricultural Sector	Sales Turnover(IDR)	Earning After Tax (EAT) or Net Income(NetIncome)(IDR)	NPM	NPM (%)	Industry Standards	Criteria
Number	3.251. 437.400, -	1.329..656.400, -	0.4089	40.89%	>20%	Good
Average	129.964.696, -	53,157,656, -				

Source: Primary data processed, 2020

Based on Table 4. The known value of the ratio of net profit margin of 40,89%. If the industry average for the net profit margin is 20%, the results of the study indicate that the MSMEs net profit margin of the agricultural sector is good because it is above the industry average. This also means that the MSMEs in the agricultural sector get good results that exceed the cost of goods sold because the price of the product and the costs are relatively affordable.

Results of ROI (Return on Investment) (ROI = ROA)

Return on Investment is the ability to be used to cover the investment made (Sutrisno, 2007). The higher this ratio the better the state of a company. Return on investment is a ratio that shows how much net income a company gets when measured by the value of assets (Harahap, 2008).

Table 5. Return on Investment (ROI) of MSMEs Agriculture Kendari, 2019

MSMEs Agricultural Sector	Total Assets(IDR)	Earning After Tax (EAT) or Net Income(NetIncome)(IDR)	ROI	ROI (%)	Industry Standards	Criteria
The number	4.560.350.000, -	1.329.656.400, -	0.2916	29.16%	>30%	Less Good
Average	182.302.000, -	53,157,656, -				

Source: Primary data processed, 2020

According to Table 5. in mind the value of the return on investment/ROI or Return on Total Assets/ROA of 29.16%. If the industry average for Return on Investment (ROI) is 30%, the results of the study show that the Return on Investment (ROI) of the agricultural sector MSMEs is not good because it is below the industry average. This shows the inability of the MSMEs in the agricultural sector to obtain ROI caused by low-profit margins due to low asset turnover.

Results Return on Equity (ROE)

Return on equity is a measure of income available to the owners of the company (both common shareholders and preferred shareholders) on the capital they have invested in the company (Syafri, 2008). Return on Equity is a ratio that shows the extent to which companies manage their capital effectively, measuring the level of return on the investment made by the owners of their capital or shareholders of the company (Sawir, 2009).

Table 6. Return on Equity (ROE) of MSMEs Agriculture Sector in Kendari City, 2019

MSMEs Agriculture Sector	Shareholders' Equity (IDR)	Earning After Tax (EAT) or Net Income(IDR)	ROE	ROE (%)	Standard Industry	Criteria
Total	2.861.950.000	1.329.656.400	0,4646	46.46%	> 40%	Good
Average	114.378.000	53.157.656				

Source: Primary data processed, 2020

Based on Table 6. the known value of the return on equity is return on equity amounted to 46.16%. If the industry average for Return on Equity (ROE) is 40%, the results of the study show that the Return on Equity (ROE) of the MSMEs agricultural sector is in good condition because it is above the industry average. This shows the ability of the agricultural sector MSMEs to obtain ROE even though the value of ROI has slightly decreased.

IV. CONCLUSION

The financial performance of the agricultural sector MSMEs is almost overall good value. This can be seen from the evaluation of the elements of profitability ratios, among others, gross profit margin which shows that MSMEs in the agricultural sector can get high enough profits obtained from sales, Net Profit Margin which shows that MSMEs in the agricultural sector get good results. Exceeds the cost of goods sold because the price of the product and its costs are relatively affordable, and the value of ROE which shows the ability of the agricultural sector MSMEs to return the equity of the net profit earned. But on the other hand, the performance appraisal based on ROI is a bit unfavorable this is due to low-profit margins due to low asset turnover.

V. RECOMMENDATIONS

MSMEs in the agricultural sector need to take good financial records and routinely prepare simple accounting financial reports so that MSME entrepreneurs can easily assess the performance of financial businesses. MSMEs of the agricultural sector must utilize their fixed assets such as buildings, machinery, and business equipment so that they can produce a lot of business products so that they can increase their business sales turnover.

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